Date Filed: October 08, 2026

Witness: Matthew Fallon
Request from: ALLCO

Question:

(Capital structure.) (a) State the Company's actual common-equity ratio at each year-end 2018 through 2025 and at the most recent month-end, and the equity ratio proposed for ratemaking in this proceeding, and explain any difference. (b) State whether the Company or Eversource Energy has analyzed the effect on the Company's credit metrics and total cost of capital of increasing the common-equity ratio while reducing the return on equity, and produce each such analysis. (c) State the amount of equity infused by Eversource Energy into the Company in each year 2018 through 2025 and the amount of dividends paid by the Company to Eversource Energy in each such year.

Response:

(a) Please refer to the Company's response to EOE-062[i], for the actual common equity ratios for each year 2018 through 2025. The equity ratio proposed in this proceeding is 53.86%. Please refer to the Company's response to ALLCO-051[ii], for a discussion of the Company's historic equity ratios and the equity ratio proposed in this proceeding.

(b) Please refer to the Company's response to OCC-757[iii].

(c) Please refer to ALLCO-144, Attachment 1, for the amount of equity infused by Eversource Energy into the Company in each year 2018 through 2025 and the amount of dividends paid by the Company to Eversource Energy in each such year.

Prior Referenced Response:

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[i] EOE-062 Question:

(EARNINGS SHARING MECHANISM-ESM) Provide an unlocked Excel spreadsheet detailing the Company's annual ESM results (i.e., calculated return on equity-ROE) in comparison to the Company's authorized ROE each annual ESM filing since the Company's last rate case. Separately, provide a similar comparison of the Company's "hypothetical" annual ROE results to the Company's authorized ROE whereby the "hypothetical" ROE results are capped at the equity ratio authorized in the last rate case.

EOE-062 Response:

In accordance with Section 10(a) of the 2018 Rate Settlement approved by PURA in Docket No. 17-10-46, earnings at the end of each calendar year above the authorized return on equity ("ROE") of 9.25% shall be shared between

customers and the Company on a 50/50 basis. The Company reports its ROE at the end of each calendar year in Docket No. 76-03-07 (2018 – 2020) or Docket No. 76-03-07RE01 (2021 – 2025) as the basis for any earnings sharing.[1] The Company did not earn above the authorized 9.25% at the end of any calendar year between 2018 and 2025.

Please refer to Exhibit 1(C)(1) of Attachments 1a through 5a for each actual ROE for the period 2018 through 2022. Please refer to Exhibit 1(C)(1a) of Attachments 6 through 8 for each actual ROE for the period 2023 through 2025.

Please refer to Exhibit 1(C)(1) of Attachments 1b through 5b for each illustrative ROE for 2018 through 2022 utilizing the Company's authorized equity ratio from Docket No. 17-10-46. The Company began reporting an illustrative ROE utilizing the Company's authorized equity ratio from Docket No. 17-10-46, beginning with its year-end 2023 results. Please refer to Exhibit 1(C)(1b) of Attachments 6 through 8 for each illustrative ROE for 2023 through 2025 utilizing the Company's authorized equity ratio from Docket No. 17-10-46.

A table summarizing the results is presented below:

Year	Earned ROE w/ Actual Capital Structure	Illustrative ROE Using Authorized Capital Structure	Reference
2018	8.98%	9.00%	Attachments 1a and 1b
2019	8.70%	8.85%	Attachments 2a and 2b
2020	9.03%	9.26%	Attachments 3a and 3b
2021	9.09%	9.26%	Attachments 4a and 4b
2022	8.33%	8.60%	Attachments 5a and 5b
2023	7.35%	7.57%	Attachment 6
2024	6.13%	6.23%	Attachment 7
2025	6.51%	6.57%	Attachment 8

[1] Section 10.c of the January 11, 2018, Settlement Agreement states that "[t]he Company shall file an earnings sharing report, on a calendar year basis, annually with the Authority each March 31st", however, the Company's year end ROE filing is filed prior to that date each year satisfying this requirement to the extent there is no earnings sharing.

[ii] ALLCO-051 Question:

With respect to capital structure and expected earnings: (a) state the Company's actual common equity ratio, per books, at the end of the Test Year and as of the most recent quarter, and reconcile any difference from the requested 53.86%; (b) state the amount of long-term debt outstanding at Eversource Energy (the parent) as of the end of the Test Year and state whether any proceeds of parent debt have been invested as common equity in CL&P, quantifying the amounts (i.e., the extent of double leverage); and (c) quantify the expected return on equity to shareholders under the proposed earnings sharing mechanism — 50/50 sharing above the authorized return with no downside adjustment — assuming the requested 10.25% authorized return, producing the distribution or scenario analysis used, and state whether the Company performed any analysis of the asymmetric value of that mechanism; if not, explain why an asymmetric mechanism does not require a lower authorized return.

ALLCO-051 Response:

a. In recent years, the Company has had to fund significant deferred balances relating to catastrophic storm restoration costs and the Company's Revenue Adjustment Mechanism ("RAM") reconciling rates, including the 2024 Non-bypassable Federally Mandated Congestion Charges ("NBFMCC"). As discussed in response to data request OCC-522i, including the attachment provided therein, the Company's capital resources are limited. With no foreseeable recovery of the costs in the near term, the Company had to support the growing deferral balance using its limited capital resources, although the deferral offered no operating cash flow with which the Company could service additional debt. To mitigate the financial risk that would otherwise result (from additional debt), the Company took steps to preserve its credit ratings, including maintaining a higher percentage of equity in its capital structure. Consequently, the Company's common equity ratio, per books, was considerably higher than the equity ratio in prior years. Once the artificially low RAM rates were corrected and the corresponding deferred balances were reduced, the need to maintain a higher equity capitalization ratio was lessened.

Specifically, the Company's common equity ratio on a 5-quarter average basis was 54.56% as of December 31, 2025, and 55.26% as of June 30, 2026. The Company anticipates issuing $1.45 billion of First Mortgage Bonds over the two-year period July 1, 2026, through June 30, 2028, to fund ongoing operations as well as upcoming maturities of $500 million. Additionally, the Company expects to retain approximately $400 million of earned equity over the same timeframe. As shown in the table below, the Company has reflected an equity ratio of 53.86% in the rate year in this proceeding, incorporating assumptions of timely recovery of past and future storm costs, among other proposals in this proceeding.

Please refer to Table 1, below, as well as the Company's filed Exhibit CLP-REVREQ-2, Schedules D-1.0, WP-D-1.1, and D-5.0.

ALLCO-051 Table 1

($ Millions) End-of-Period Balance			Average	
June 30, 2026	June 30, 2027	June 30, 2028	2-Year Change	June 30, 2028
Long-term Debt *	$ 5,109.2	$ 5,751.7	$ 6,053.8	$ 944.5	$ 5,873.0
Common Equity	6,769.5	6,812.8	7,171.5	402.0	6,992.1
Preferred Stock	117.0	117.0	117.0	0.0	117.0
Total Capital	$ 11,995.7	$ 12,681.5	$ 13,342.3	$ 1,346.5	$ 13,011.9
Common Equity Percentage of Total Capital			53.86%		

** Rate Year average balance is calculated on a 5-quarter average basis*

b. Eversource Energy is a public holding company that holds regulated electric, gas and water affiliates as well as unregulated affiliates. It is simply not possible to associate individual sources of funds, whether at the utility or holding company, with the uses of funds at the operating company level, nor is the business managed in that manner. The management of cash into and out of the Company is a daily undertaking that ultimately includes the passage of billions of dollars out of the Company, to suppliers and employees, as well as into the Company from various sources, including customers. Although the Parent company raises necessary capital through specific sources available, the uses are not connected to any specific source of funds.

Those sources of funds include equity issuances, retained earnings, the use of treasury shares for such programs as dividend reinvestment and 401k match, long-term debt issuances, and, temporarily, short-term debt. These sources of funds as well as the eventual uses vary significantly year to year. Moreover, the Company's credit ratings, such as those issued by Moody's, are determined at the subsidiary level based on the riskiness of its assets,

specifically, as well as the degree of financial risk resulting from the Company's issuances of First Mortgage Bonds. Those bonds include protections, ring fencing, and covenants specific to the Company (i.e not Eversource Energy Parent), and are backed by the Company's (again, not Eversource Energy Parent's) assets in the State of Connecticut.

c. There is no sharing of earnings caused by the setting of base rates with an authorized return incorporated into the approved revenue requirement. Further, the Company does not anticipate that it will over-earn during the term of the PBMRP.

[iii] OCC-757 Question:

(WACC) Did the Company do any weighted average cost of capital analysis (WACC) which compared various debt percentages compared to equity. Such as 60% debt to 40% equity, 55% debt to 45% equity, and 40% debt to 60% equity.

OCC-757 Response:

There is no "test" that the Company can apply to try out different equity ratios in the capital structure relating to the weighted average cost of capital, such as 60% debt/40% equity, 55% debt/45% equity, or 40% debt/60% equity. The Company's capital structure reflects the actual capitalization of the Company, which is a critical input to the credit-rating process. To "test" out the effect of various capital structures on the Company's credit-rating outcome, it would be necessary to issue actual debt at different levels and see how the credit-rating agencies react, which means that the results of the "test" could be an actual credit action that the Company cannot then pull back.

The response below references Moody's June 30, 2026, credit opinion for the Company, provided here as OCC-757, Attachment 1.

The Company is proposing to use actual capital structure for determining the weighted average cost of capital (as adjusted for known financing activities) in order to reflect the financial realities of providing distribution service in Connecticut and the importance of maintaining credit quality to support ongoing access to capital on reasonable terms. Although increasing debt may appear to reduce WACC in a purely arithmetic sense, capital structure decisions must also account for the effect of leverage on financial risk, credit quality, and long-term financing costs. In the Company's circumstances, maintaining an equity ratio of 53.86% supports the Company's ability to attract capital on reasonable terms and continue making the substantial investments required to provide safe and reliable electric distribution service. Accordingly, the Company's actual capital structure reflects a balance between financing costs and financial strength, rather than the results of a simple debt-versus-equity sensitivity analysis.

CL&P's capital structure should enable the Company to maintain or enhance financial integrity, thereby enabling access to capital at competitive rates under a variety of economic and financial market conditions.

As a regulated utility that relies on constant access to capital markets in order to finance necessary infrastructure investments, the Company does not have the option to avoid raising external funds during periods of capital market distress. Capital-intensive companies are financed in light of the risks and funding requirements associated with their assets and operations. Additionally, companies operating within a given sector are likely to have comparable financing requirements, face common financing constraints and, therefore, have comparable financing practices. As such, CL&P assesses its capital structure relative to prevailing industry practice, as compared to other utilities with similar financing requirements and business risks.

Currently, CL&P has a target capital structure with an equity ratio of approximately 53% to 54%. CL&P's assessment of its operating environment is that an equity ratio of approximately 53% to 54%, is consistent with those in place at other similar utilities and is necessary to enable the Company to maintain or enhance its financial integrity thereby providing access to capital at competitive rates under a variety of economic and financial market conditions. As noted in Exhibit CLP-ROE-1, Ms. Bulkley noted that CL&P's proposed equity ratio of 53.86 percent is well within the range of equity ratios of the utility operating subsidiaries of the proxy group, as supported by her capital structure analysis presented in Exhibit CLP-ROE-12.

In addition, as recognized by Moody's in its June 2026 report, the Company's credit profile remains heavily influenced by the Connecticut regulatory environment. Moody's stated that it would consider an upgrade if "the credit supportiveness of the Connecticut regulatory environment substantially improves with future regulatory decisions that are more predictable and enhance the timeliness of the recovery of costs and investments. In addition, an upgrade could be considered if we expect CL&P will be able to sustain a stronger financial profile on a consistent basis, including a ratio of CFO pre-WC to debt of 20% or higher." (OCC-757, Attachment 1, page 3) Moody's further stated that the Company "could be downgraded if Connecticut regulatory decisions continue to be contentious or unsupportive of credit quality or ***if CL&P's financial performance deteriorates such that its ratio of CFO pre-WC to debt falls below 17% on a sustained basis***." (OCC-757, Attachment 1, page 3, emphasis added)

A capital structure reflecting a 60% debt ratio, while holding other key assumptions constant, including assuming the Company's proposed 10.25% return on equity is approved in this proceeding as filed, would produce a Moody's CFO pre-working capital to debt ratio approaching 15% for the distribution business. That level would fall materially below the 17% threshold identified by Moody's as a potential basis for downgrade and would remain below that threshold beyond Rate Year 1.